



INVESTING IN IOWA'S WATER

ANNUAL REPORT

Clean Water and Drinking Water State Revolving Fund Programs

Iowa Department of Natural Resources and Iowa Finance Authority



State Fiscal Year 2008
July 1, 2007 – June 30, 2008



INVESTING IN IOWA'S WATER

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EXECUTIVE SUMMARY

The State Revolving Fund (SRF) is one of Iowa's primary sources for investments in water quality and protection of public health. Two funds, for drinking water and for water pollution control, have provided low-cost financing worth almost \$1 billion to Iowa communities, farmers, watershed groups, and others. The Iowa SRF is operated through a partnership between the Department of Natural Resources (DNR) and the Iowa Finance Authority (IFA). DNR administers the environmental and permitting aspects of the programs, with IFA providing financial assistance including loan approval and disbursements.

Record Levels of Usage

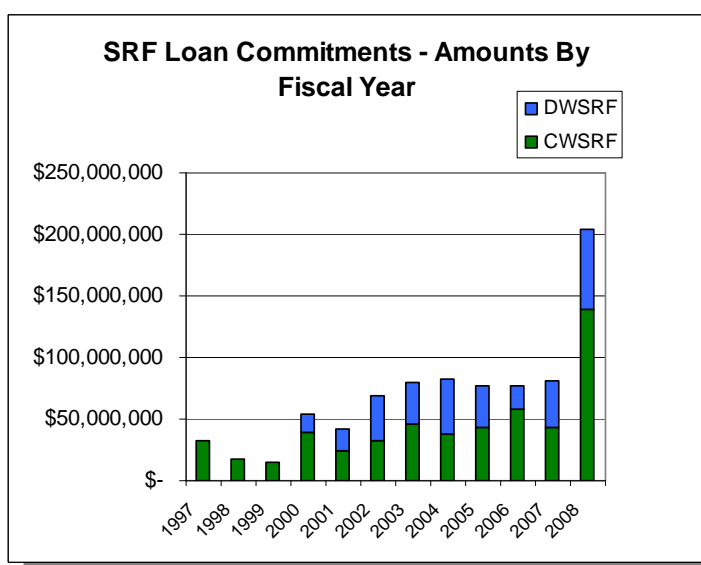
This report covers program activities during state fiscal year (SFY) 2008. As shown in the chart, the SRF had record levels of demand and usage this year. From averaging about \$60 million in loan commitments each year for water, wastewater, and nonpoint source projects, in SFY 2008 the SRF total was \$204 million.

The SFY 2008 total included:

- **\$121 million** to design and construct wastewater treatment upgrades, sewer rehabilitation, combined sewer overflow correction, and new collector and interceptor sewers.
- **\$65 million** to design and construct water treatment, storage, and water supply projects; and
- **\$18.4 million** for nonpoint source projects to prevent soil erosion, manage manure, replace inadequate septic systems, improve storm water management, and conserve land for water quality and habitat protection.

Several factors are driving this expansion:

- An increase in the number of communities coming to the SRF to borrow;
- More usage of the programs by larger communities with more costly projects; and
- Reaching new borrowers through expansion of the programs aimed at nonpoint source pollution control.



Improvements Lead to Results

The increased use is the result of several years of efforts to improve the SRF. Since 2000, a group of stakeholders and state officials has worked to address shortcomings in the SRF programs. Since then, the following improvements have been made:

- Legislation was passed and signed to allow the CWSRF to provide financial assistance to private borrowers for nonpoint source pollution projects. This has allowed the program to help Iowans control soil erosion and better manage manure, upgrade septic systems in rural areas, address urban storm water runoff, and solve other water quality problems.
- DNR and IFA have partnered with other state and local agencies, including the Iowa Department of Agriculture and Land Stewardship, to develop and deliver nonpoint source programs. These partnerships are crucial to the success in reaching new audiences.
- Interest rates, loan terms, and fees were removed from administrative rules in order to allow greater flexibility. They are now published in the annual Intended Use Plans instead.
- Planning and design (P&D) loans were created to help communities get projects started and prepare for construction. P&D loans are offered at 0% interest for up to three years.
- Extended term financing is offered, allowing borrowers to reduce annual payments.
- All requirements for construction permitting and the SRF programs are explained in manuals which include checklists, process maps, and other guidance.
- Compliance with federal requirements, such as environmental review, is now handled by SRF staff rather than placing that burden on the applicants.
- Outreach to potential borrowers, consulting engineers, financial advisors, and other stakeholder groups has been stepped up. A web site, workshops, displays and presentations at trade fairs and conferences, advertising, and other promotional methods have increased awareness and understanding of the benefits of using SRF.



SRF Generates Savings

There are three types of loans available to help cities, public water supplies, counties, sanitary districts, or utility management organizations upgrade their water and wastewater systems.

- Planning and design (P&D) loans are provided at 0% interest for up to three years to cover the costs of preparing facility plans and project specifications. The loans will be rolled into SRF construction loans or repaid by another source of permanent financing. Many facilities

are using P&D loans to prepare for applying for grants and other financing as well as for SRF loans.

- Construction loans are offered at 3% interest. Loan term can extend to 30 years based on the average useful life of the project, and, for drinking water projects, the disadvantaged status of the applicant.
- Source water protection loans are offered at 0% interest. These loans can help public water supplies acquire land and conservation easements, or work with facilities in their wellhead or source water protection areas.



SRF loans can be used in conjunction with other programs, and many SRF projects are co-funded with Community Development Block Grants, IFA wastewater assistance grants, or federal grants.

Because the SRF provides below-market interest rates, borrowers save on their financing costs. For example, on a \$5 million loan, using SRF would save ratepayers \$1.1 million over 20 years.

While there are certain requirements associated with federal funds, the savings for most communities will outweigh these other factors in deciding how to finance projects. In addition, DNR and IFA provide assistance to borrowers to address these requirements.

Tackling Nonpoint Source Pollution

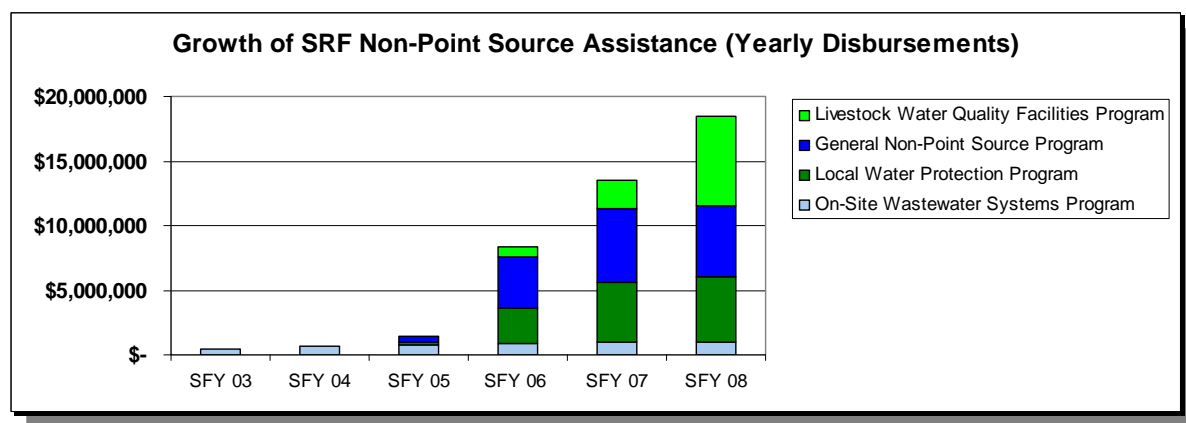
Four targeted programs were created as part of Iowa's Clean Water SRF to help Iowans tackle nonpoint source water quality problems related to runoff of soil, nutrients, and chemicals. Loans are offered through participating lenders via a linked deposit arrangement.

- The On-Site Wastewater Systems Assistance Program (OSWAP) was launched in SFY 2003 to facilitate loans to rural homeowners for the replacement of inadequate septic systems. New systems are certified by county sanitarians. The average loan amount is \$6,414.
- The Local Water Protection (LWP) Program, started in SFY 2004, addresses soil, sediment, and nutrient control practices on agricultural land. The Iowa Department of Agriculture and Land Stewardship, Division of Soil Conservation, operates the program through local Soil and Water Conservation Districts.
- The Livestock Water Quality Facilities (LWQ) Program began in SFY 2005. The goal is to assist livestock producers with manure management plans, structures, and equipment. Facilities with fewer than 1,000 animal unit capacity are eligible. This program was originally administered by the Iowa Agricultural Development Authority and now is also offered

through Soil and Water Conservation Districts with oversight by the Department of Agriculture and Land Stewardship, Division of Soil Conservation.

- The General Nonpoint Source (GNS) Program addresses a wide variety of other water quality protection efforts. The first project was completed in SFY 2005. The program is coordinated by DNR and projects include habitat and wetland restoration, urban storm water management, landfill closure, lake restoration, and watershed planning. Loan amounts have ranged from \$6,500 to \$6 million. SRF is playing the role of increasing the adoption of innovative practices by providing incentives for early adopters.

In SFY 2003, less than a million dollars was committed to nonpoint projects. The programs have seen steady growth, to the point that in SFY 2008, \$16 million was disbursed. Through the end of SFY 2008, a total of \$43 million worth of practices has been completed across the state. The SRF estimates that borrowers have saved \$12 million in interest payments versus what they would have paid at market rates.



A Perpetual Funding Source

The Clean Water SRF can only be used for loans, not for grants. The Drinking Water SRF is allowed to make forgivable loans to disadvantaged communities, but program managers have chosen not to exercise this option in order to build up the revolving loan fund.

The diagram below shows the sources and uses and how the funds revolve to provide a perpetual funding source. The funds are capitalized by federal grants and state bonds required for a 20% match. The programs can also issue bonds to generate additional loan funds, “leveraging” the capacity of the SRF.

When loans are made, all loan repayments and interest income go back into the loan fund. In this way, the funds truly revolve and grow in their capacity to meet water quality and drinking water infrastructure needs into the future.



IFA has analyzed the future financial capacity of the Iowa SRF. Using relatively conservative assumptions, IFA projects that the Clean Water SRF could loan an average of \$100 million per year over the next 10 years, or a total of \$1 billion. The Drinking Water SRF has the capacity to generate an average of \$60 million per year.

The Needs are Great

Several factors will create greater needs for investment in the years to come: Higher regulatory standards, aging of the infrastructure, increased emphasis on environmental protection, and growth and expansion.



The 2004 Clean Watersheds Need Survey, recently published by the U.S. Environmental Protection Agency (EPA) shows documented needs for Iowa of \$955 million. The analysis covers a twenty-year horizon of improvements for wastewater treatment, sewer systems, and combined sewer separation. The Needs Survey is conducted every four years. The 2008 Iowa data is currently being collected, and will take into account changes in water quality standards that were not contemplated in 2004.

A similar needs survey was taken for the Drinking Water SRF in 2003. It showed needs for Iowa totaling \$3.5 billion, including treatment, water sources, storage, and transmission and distribution systems. This survey also covers a twenty-year timeframe.

The impacts from extensive flooding and other natural disasters are currently being assessed. The SRF is not a very flexible tool for emergency response, but the Iowa SRF team is working with communities on a case-by-case basis to provide assistance. Some of the ways the SRF is helping include restructuring existing loans and using loans as match for FEMA grants.

Nonpoint source needs are more difficult to assess because they are widespread and dispersed. Several areas of nonpoint source need have been analyzed, including the following:

- Onsite wastewater systems. DNR estimates that there are approximately 100,000 inadequate septic systems throughout the state. The average cost of replacing a system is \$6,400. The total need for this area is estimated at \$640 million.
- Lake restoration. DNR has identified 35 priority lakes. The cost of in-lake restoration practices totals \$130 million. Watershed work around the lakes adds \$75 million. If the other public lakes were to be addressed, it would cost up to \$410 million. Iowa State University calculates that Iowans spend \$1 billion for recreation centered around lakes.
- Nitrate reduction. A study by the Center for Agricultural and Rural Development (CARD) at Iowa State University assessed the costs of practices on agricultural land to reduce nitrate levels. For a 25 percent reduction, the cost is \$472 million annually, and for a 40 percent reduction, the cost increases to \$613 million annually.
- Protection of cold water streams. DNR has identified 96 significant streams and assessed the cost of protecting and restoring the water quality in order to support game fish. The total cost would be \$286 million.



These estimates were prepared before the 2008 floods destroyed many practices that had already been installed. The Natural Resources Conservation Service estimates that there may be \$40 million worth of repairs to existing soil, sediment, and nutrient control practices needed due to flood damage.

Other major areas of nonpoint source needs that have not been assessed, but that could run into the hundreds of millions of dollars, include:

- Improvements to small and medium sized animal feeding operations to better manage manure and prevent runoff;
- Bank and channel restoration and development of riparian corridors for streams and rivers; and
- Urban storm water management.

Meeting the Challenges of the Future: Proposed Improvements

The SRF has been successful in overcoming its past problems. With that success comes a new set of challenges. While in the past the SRF had excess funds, it is now a possibility that

demand could outstrip capacity. The needs for water quality and public health protection are enormous. The challenge in the future will be to develop priority systems to ensure that SRF loans go to efforts with the highest value for public health and environmental protection. With input from program stakeholders and through a rule-making process, the priority systems for the SRF programs will be reworked during FY 2009.

Another challenge will be balancing the short-term needs of borrowers with the long-term capacity of the funds. Currently interest rates for nonpoint source projects are subsidized. It is possible to reduce interest rates for other types of borrowers, such as disadvantaged communities or those impacted by natural disasters. Estimates have been run that show that if 10% of CWSRF assistance is provided at 0% interest, the capacity of the fund over the next ten years is reduced by approximately \$60 million – from \$1.16 billion to \$1.10 billion. If capitalization grants continue to be cut, the impact could be even greater. Input from stakeholders and financial advisors will be used to determine the amount of reduced interest assistance that can be provided without jeopardizing the SRF's capacity to meet future needs.



CLEAN WATER STATE REVOLVING FUND

July 1, 2007 – June 30, 2008

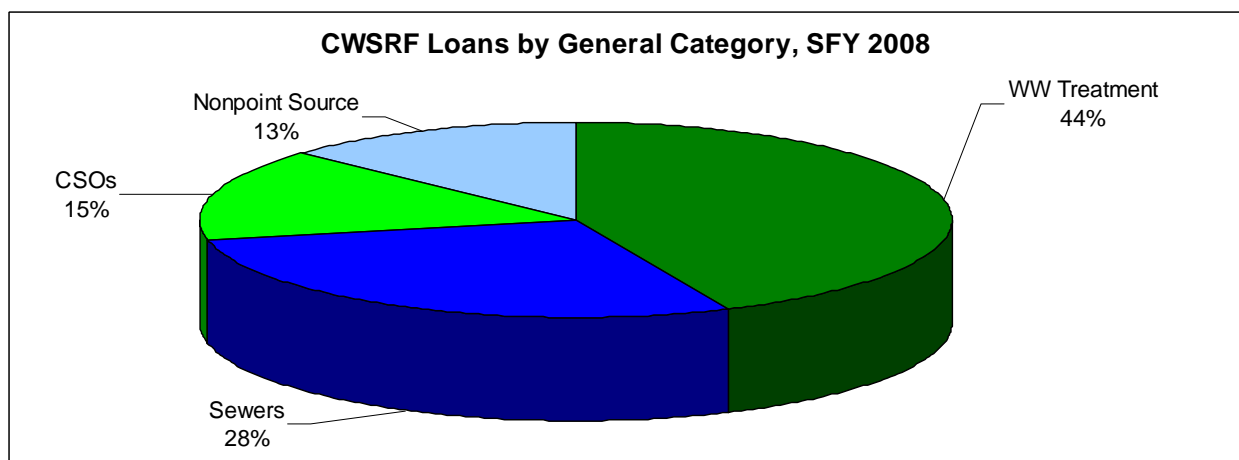
The goals and objectives for the Clean Water SRF were laid out in the state fiscal year (SFY) 2008 Intended Use Plan (IUP), which was updated quarterly. This annual report examines the activities carried out and the progress made toward meeting those goals.

As of the end of June 2008, the Clean Water SRF has entered into financial commitments totaling almost \$700 million, including \$43 million for nonpoint source projects through linked deposits.

Through the efforts of the Department of Natural Resources (DNR) and the Iowa Finance Authority (IFA), the Clean Water SRF is providing an expanded menu of programs to meet Iowa's water quality needs.

During SFY 2008, the Clean Water SRF provided assistance totaling \$139.9 million, compared with \$57.7 million the previous year. This included:

- \$60.6 million for planning and construction of wastewater treatment facilities;
- \$39.8 million for sewer rehabilitation and new sewers;
- \$21 million to separate combined sewer systems; and
- \$18.4 million to address nonpoint source pollution.



Planning and design loans represented \$13 million of the wastewater, sewer, and CSO totals.

Clean Water SRF Goals and Accomplishments

The primary long-term goal of the Clean Water SRF is to protect the environment and public health and welfare through a perpetual financial assistance program. Shorter-term goals and

objectives were established in the SFY 2008 IUP. The goals and progress toward meeting them is discussed below.

Goal 1: Provide financial assistance that is lower cost than private financing options while assuring the perpetual nature of the program.

Objective: During SFY 2008 IFA will continue to educate and inform communities and consultants on the financial savings available by using the CWSRF.

Brochures showing the financial savings that can be realized by using the SRF and explaining the Planning and Design loans are distributed at conferences. IFA also advertises regularly in the publications of the League of Cities and the Iowa Association of Municipal Utilities.

This past year, IFA and DNR exhibited or presented at conferences held by the Iowa League of Cities, the Iowa Association of Municipal Utilities, Iowa Rural Water Association, Iowa Municipal Finance Officers Association, Professional Developers of Iowa, AWWA – Iowa Section, Iowa Environmental Council and Iowa Water Pollution Control Association.

Goal 2: Apply program requirements that are simple and understandable and do not add unnecessary burdens to applicants or recipients.

Objective: During SFY 2008 DNR will continue to assist applicants with completing the federal cross-cutting requirements for environmental and historical review. In addition, new rules for the Livestock Water Quality Facilities program will be finalized.



The SRF environmental review coordinator completed 33 assessments, including:

- 8 categorical exclusions (CXs); and
- 25 full assessments that ended in Findings of No Significant Impact (FNSIs).

During SFY 2008, a customer satisfaction survey was sent when the environmental review for a project was completed. The surveys were sent to project owners, engineering consultants, and grant administrators.

The following comment from a consultant on a wastewater project was typical of the level of satisfaction: "Things went very smoothly from my perspective. The ER coordinator completed things in a timely manner, and followed up to make sure everything got done. Good job!"

Rules changes for the Livestock Water Quality Facilities program were effective in October 2007. Deep-bedded buildings are now being used to replace open feedlots, providing improved manure runoff control. Existing rules for the LWQ program did not allow for financing these structures. The new rules allow financing of these types of roofed facilities under certain conditions.

Another effort during SFY 2008 was the presentation of a series of "Advanced SRF" workshops. The workshops were held with consulting firms and cities to explain step-by-step the SRF procedures, from applications to environmental review to loan draws. SRF staff traveled around the state and presented nine workshops. The workshops also drew feedback from the attendees, which were used to improve the program's processes and procedures.

Goal 3: Implement the option of extended financing terms for CWSRF Section 212 projects.

Objective: DNR and IFA will offer the option to current and new projects on the project priority list.

The actual loan term is established by calculating the average useful life of the project. DNR developed a worksheet that consulting engineers can use to calculate the loan term, based on EPA guidelines of the useful life of various components of wastewater treatment and sewer systems. While total interest paid is higher, the extended term option allows a community to lower the annual payments.

During SFY 2008, five projects, including those for Lansing, McCausland, and three for the Des Moines Wastewater Reclamation Authority, used extended financing.

Goal 4: Maintain mechanisms for funding the on-going administration of the SRF program if federal funding is reduced or eliminated.

Objective: During SFY 2008 DNR and IFA will continue to examine the most efficient and effective use of administrative accounts inside and outside the Clean Water SRF.

Funds to administer the Clean Water SRF program come from capitalization grants and from loan fees, as shown in the diagram below. Municipal borrowers pay an origination fee of 1% of the loan amount, which can be financed as part of the loan, as well as a .25% annual servicing fee on the outstanding principal. A small portion of the servicing fees, by EPA regulations, can be considered "non-program income." All other Clean Water administrative funds can only be used for Clean Water SRF program expenses.

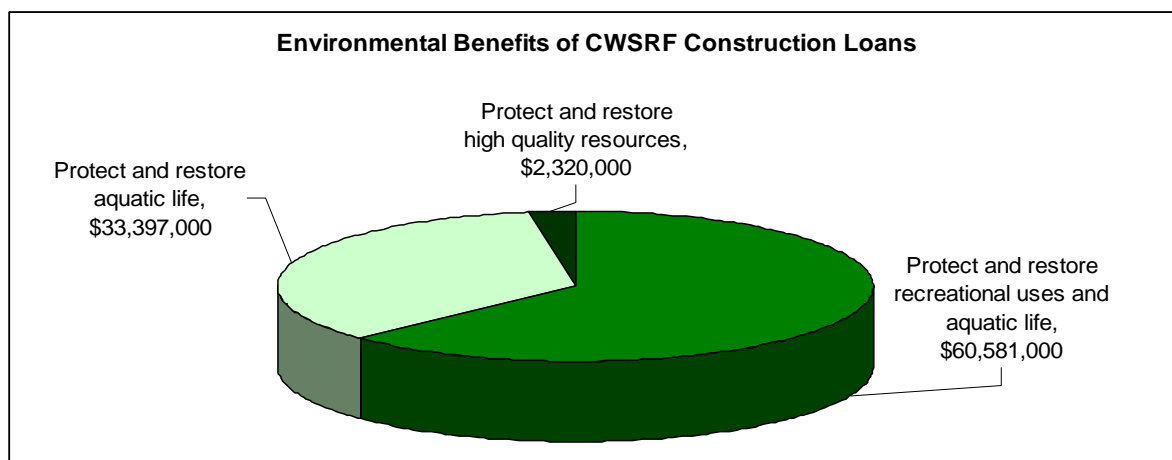


During SFY 2008, DNR used non-program income, which can be used for general purposes of the Clean Water Act, to support utility management organizations, which work with small and unsewered communities, to fund bacterial monitoring as part of the Iowa Safe Lakes Initiative, and to support the preparation of the Clean Water Needs Survey.

Goal 5: Commit loan funds to fully fund as many recipients as possible in accordance with the state priority rating system, the Intended Use Plan, staff resources, and available funding, in order to assist in the construction of projects with the highest water quality impacts.

During SFY 2008, DNR will continue to devote staff resources to moving projects through the approval process. The W/WISARD database will be used to monitor and track progress. IFA will maintain its on-line system to accept applications for P&D and construction loans. A second phase will be developed to allow borrowers to monitor their loans and request disbursements on-line. In addition, during SFY 2008 financing management of the onsite wastewater program was transitioned from Williams & Co. to IFA.

DNR tracks the location of projects by watershed in order to report the environmental benefits resulting from Clean Water SRF assistance. During SFY 2008, construction projects were funded in 28 of the 56 Iowa watersheds that correspond to the 8-digit Hydrologic Unit Code (HUC) designation. A map showing the project locations is attached as Appendix B. The projects will assist populations totaling 1.5 million. As shown in the graph below, the new construction projects will help wastewater systems protect and restore Iowa's waterbodies according to their designated uses.



The SFY 2008 Intended Use Plan (IUP) was approved by the Environmental Protection Commission in June 2007. It was amended quarterly to add projects to the priority lists for funding and reflect program changes. This allowed borrowers to apply when they were ready. It also allowed better coordination with other funding agencies.

During SFY 2008, a new DNR project tracking database was installed. Nicknamed W/WISARD (Water/Wastewater Information System and Records Database), the system is web-based and allows DNR project managers, program supervisors, IFA staff, field office staff, and others to keep track of SRF project milestones and program measures. The database system replaces several other database and spreadsheet tracking systems.

Applications for Planning & Design loans and SRF construction loans can be done online. The public report to allow users to monitor project progress has not yet been completed.

An online system for the Local Water Protection Program (LWPP) already exists. During SFY 2008 it was expanded and enhanced and is now being used for all the linked deposit programs.

Goal 6: Manage the CWSRF to maximize its use and impact through sound financial management.

Objective: During SFY 2008 IFA will continue to conduct financial analysis and develop innovative approaches to financial management.

The CWSRF funds are invested with the goal of attaining a market rate of return while preserving investment principal and ensuring sufficient liquidity. IFA uses short-term investment strategies to meet all loan/operating requirements. The majority of the investments are in relatively low-risk securities.

In SFY 2008, IFA took over the loan servicing for the SRF loans. IFA is responsible for invoicing borrowers, disbursing all funds and receiving all payments. By removing these duties from the Trustee, the SRF saves money on fees and provides borrowers with funds more quickly.

Goal 7: Implement programs that effectively address water quality needs and target appropriate audiences.

Objective: During SFY 2008 DNR and IFA will receive assistance from EPA contractor Northbridge to conduct customer research. Using the research findings, a cooperative marketing plan will be developed. DNR and IFA will continue to provide customer education and develop program innovations to meet customer needs.

Northbridge used two techniques: A focus group with non-program users, and in-depth interviews with recent users. The findings were used during SFY 2008 to refine marketing messages and approaches. A new logo and tagline were developed and will be incorporated into new marketing materials.

SRF staff actively promoted the programs throughout the year to targeted audiences, including potential borrowers, consultants, community development groups, watershed organizations, soil and water conservation districts, livestock producers, DNR field offices, environmental groups, utility management organizations, and other funding agencies.

Research on two of the nonpoint source programs was also initiated in SFY 2008. Iowa State University's Department of Sociology will use surveys, focus groups, and interviews to collect and analyze data on knowledge, attitudes, and behavior related to use and facilitation of loans for water quality practices such as soil and sediment control, manure management, conservation buffers, and others.

The Livestock Water Quality Facilities program administration was transferred from the Iowa Agricultural Development Authority to the Iowa Department of Agriculture and Land Stewardship, which already operated the Local Water Protection program. The decision was made to discontinue the contract with IADA and amend the IDALS agreement to include the implementation of the LWQ program based on the following:



- IDALS is highly successful in implementing the Local Water Protection Program through the involvement of the local Soil and Water Conservation Districts (SWCDs);
- Many of the LWQ projects are designed and/or approved through the Natural Resources Conservation Service staff in local SWCDs;
- Audiences for the two programs often overlap; and
- Program participants and lenders have been confused over having to deal with two different program processes and different agencies for applications and approvals.

Clean Water SRF Program Data

1. Publicly Owned Wastewater and Sewer Facilities

During SFY 2008, several SRF milestones were tracked to indicate project status, including when the loan was signed, when construction was started, and when the facility initiated operations.

The Clean Water SRF Intended Use Plan (IUP), as amended throughout the year, included requests for P&D and construction loans. The total list of projects that were included on the IUP during SFY 2008 is shown as CW Exhibit 1.

As shown on CW Exhibit 2, a number of communities were projected to sign loan agreements by June 30, 2008 and did not do so. The status of these projects fell into the categories shown in the table below:

Category	Project Names
Project is Approved but Applicant Has Not Yet Signed Construction Loan	Correctionville, Villisca, Zearing, West Liberty, Manchester, University Park, Winfield, North Liberty (supplemental), Burlington, Fort Madison
P&D Loan Pending	Mineola, RUSS (Mt. Union), Treynor, Alburnett, Boone, Clinton, Coralville, Promise City, Sac City, Steamboat Rock, Stockton, Urbana, Kelley, Macedonia
Project On Hold Pending Other Funding	EIRUSS (Fairview), RUSS (Argyle), RUSS (Plantation Village)
Applicant Dropped Out of SRF	Xenia Rural Water

CW Exhibit 2A shows that during SFY 2008, 34 projects reported construction starts. A total of 21 projects reported that they had initiated operations, as shown in CW Exhibit 2B.

CW Exhibit 2C is a list of projects for which the environmental and historical review process was completed during SFY 2008. These reviews resulted in either a Categorical Exclusion (CX) or a Finding of No Significant Impact (FNSI). DNR issued eight CXs and 25 FNSIs.

2. Non-Point Source Programs

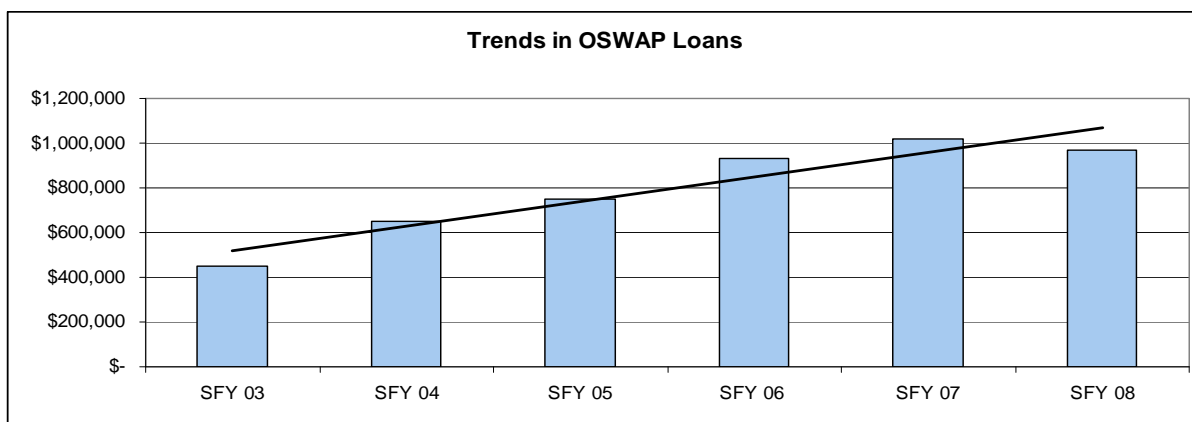
Use of non-point source programs continued to expand during SFY 2008. These programs use a linked deposit approach, through which local participating lenders underwrite and service loans to borrowers.

A map showing the location of the non-point source projects completed in SFY 2008 is attached as Appendix B. The map includes the 56 Iowa watersheds that correspond to the 8-digit Hydrologic Unit Code (HUC) designation.

Onsite Wastewater Systems Assistance Program (OSWAP). OSWAP continues to be a tool to meet Iowa's goal of addressing the widespread problem of inadequate septic systems. Rural homeowners have borrowed a total of almost \$4.8 million to install systems that meet Code requirements.

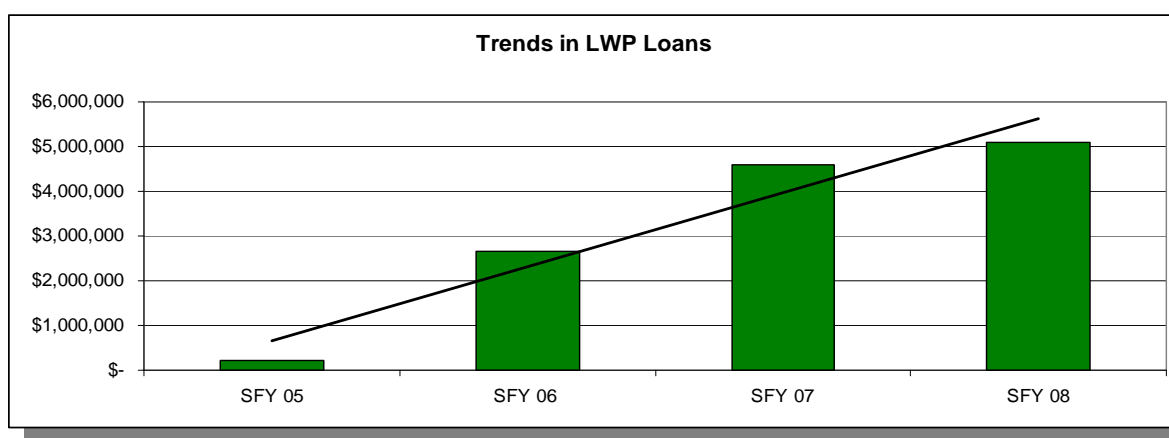
During SFY 2008, projects were completed in 37 of Iowa's 56 HUC-8 watershed areas. A total of 97 out of 99 counties are now participating in the program.

Since the 2003 fiscal year, 720 projects have been completed, with an average loan amount of \$6,614.



Local Water Protection Program (LWPP). The LWPP is administered by the Iowa Department of Agriculture and Land Stewardship's Division of Soil Conservation. The LWPP continued to grow, from disbursements of \$220,000 in SFY 2005, to \$5.0 million this fiscal year.

LWPP's focus is on practices that prevent soil erosion and address sediment and nutrient control on agricultural land. Many LWPP loans are made in conjunction with other state and federal cost-share grants. However, about 25% of the borrowers do not receive cost-share and are borrowing the total project amount. This shows the importance of loan programs in putting more practices on the land, used alone or to supplement other financial assistance.

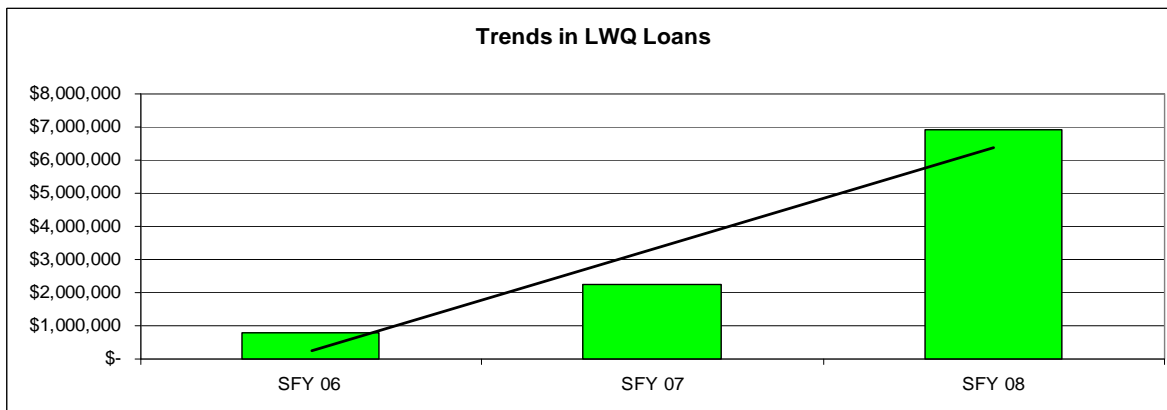


Livestock Water Quality Facilities (LWQ) Program. The LWQ program is available to producers that are not required to have an NPDES permit, primarily those with under 1,000 animal unit capacity (AUC). This restriction is mandated by federal law. An NPDES-permitted livestock operation is considered a point source, and only publicly owned point sources are eligible for SRF assistance.

In SFY 2008, \$6.9 million was disbursed for linked deposits to facilitate LWQ loans. Loan amounts ranged from \$10,000 to more than \$400,000.

Many of the larger construction projects were co-funded with EQIP, the U.S. Department of Agriculture's Environmental Quality Incentives Program. The LWQ program also financed purchase of manure handling equipment, which comprised most of the smaller loans.

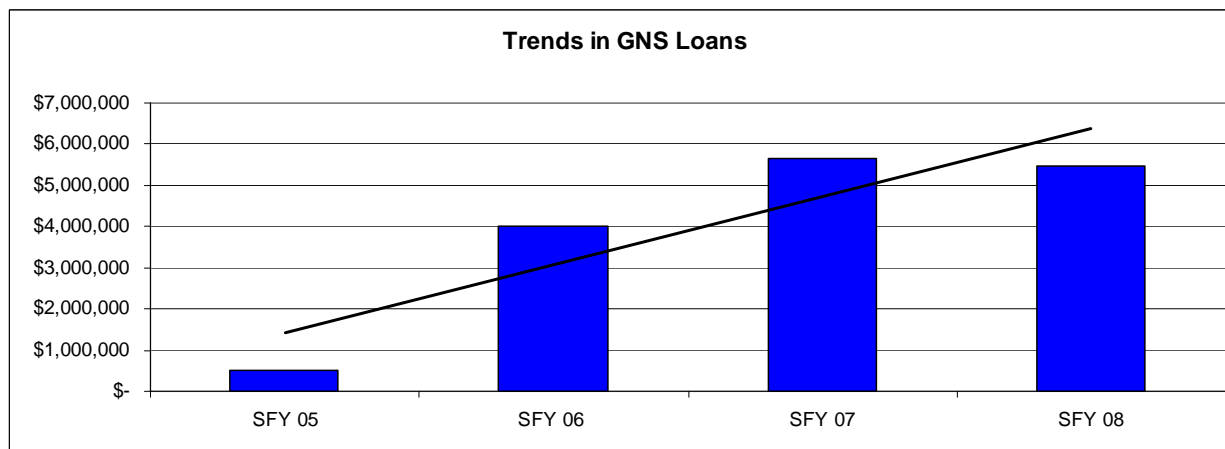
New LWQ rules become effective in October 2007, which allowing financing of deep-bedded confinement buildings. The goal of the change was to provide a financial tool to close down existing open feedlots and replace them with a better environmental system. The high cost of the deep-bedded buildings drove up the average project cost as well as the overall program usage.



In May 2008, the administration of the LWQ program was transitioned from the Iowa Agricultural Development Authority to the Iowa Department of Agriculture and Land Stewardship.

Loans for agricultural best management practices funded under the LWPP and the LWQ programs were made through 64 of the state's 100 Soil and Water Conservation Districts, and in 49 out of Iowa's 56 HUC-8 watersheds.

General Non-Point Source (GNS) Program. The GNS program was established to cover a wide range of possible water quality-related projects and practices. Use of the program has been steady since its inception.



Six projects were completed through the GNS program during SFY 2008, including:

Project	Owner	County	Amount
Brownfield remediation	City of LeMars	Plymouth	\$1,510,000
Purchase of Cortwright property to protect Wapsipinicon River corridor	Iowa Natural Heritage Foundation	Buchanan	\$508,750
Purchase of property to conserve and protect wetlands in Chichaqua Bottom Greenbelt	Iowa Natural Heritage Foundation	Polk	\$1,150,000
Completion of financing of Anglers Bay purchase to protect habitat and water quality in Big Spirit Lake	Iowa Natural Heritage Foundation	Dickinson	\$2,000,000
Rain garden	Hills of Cedar Creek	Mills	\$6,509
Low impact development practices	Windmill Estates	Johnson	\$280,000
TOTAL			\$5,455,259

Clean Water SRF Financial Data

Binding Commitments. As shown in CW Exhibit 2 and discussed above, 29 construction loans totaling \$112,098,000, and 31 planning and design loans totaling \$13,769,520, were made in SFY 2008.

Sources of Funds. CW Exhibit 4 shows the sources of CWSRF funds on a cash basis for the period July 1, 2007 to June 30, 2008. During the period, the State of Iowa received draws on federal capitalization grants for projects and administration. Bonds were issued in October 2007 for \$64,160,000 for both Clean Water and Drinking Water. Actual investment interest is shown.

Bond Proceeds Distribution. Bonds were issued for the state match for Clean Water as well as to leverage the fund. Of the \$64,160,000 in bond proceeds, \$5,660,000 was for Clean Water state match and \$29,700,000 was for Clean Water loans.

Disbursements. CW Exhibit 3 shows the various trust fund balances maintained by the trustee for the CWSRF program as of June 30, 2008. CW Exhibit 8 shows the proportionality of federal draws to the disbursements and verifies that the federal participation did not exceed that allowed.

a. *Loan disbursements* - As can be seen in CW Exhibit 7, loan disbursements, including prepayments on loans, during SFY 2008 totaled \$86,936,795. This includes prepayments of \$1,058,160 as identified in Note 3 to the financial exhibits.

b. *Bond costs of issuance* - The Cost of Issuance Fund is outside the CWSRF. However, the EPA has asked the state to report on the Cost of Issuance Fund, as it is funded with state bond proceeds. The reason the Cost of Issuance Fund is outside the CWSRF is to avoid the crediting of costs of issuance to the state's 4% administrative expense ceiling. Otherwise, this fund is reported herein as a CWSRF account.

c. *Administrative costs* - As shown in CW Exhibit 6, \$1,701,996 was disbursed, or accrued, for program administration utilizing federal capitalization grant funds in SFY 2008. Included in this total are trustee and bond counsel fees, Iowa DNR and IFA administrative costs, contracts for non-point source program operation, financial advisor services and program consulting services.

d. *Interest on bonds* - Also shown in CW Exhibit 6, \$6,703,385 was disbursed, or accrued, for payment of interest on bonds to bond holders.

Total expenses for SFY 2008 were \$8,665,389 as shown in CW Exhibit 6.

Financial Statements. CW Exhibit 5 is a statement of net assets prepared on an accrual basis for the Iowa CWSRF as of June 30, 2008 and June 30, 2007. As of June 30, 2008, the CWSRF had total assets of \$553,012,430. The State Administration Fund of the CWSRF Master Trust is not represented on this balance sheet as it is outside the CWSRF. Another account, the Cost of Issuance Fund, is outside the CWSRF but is included in this report as previously mentioned.

CW Exhibit 6 is a statement of revenues, expenses, and changes in net assets on an accrual basis for SFY 2008 and SFY 2007. CW Exhibit 7 is a statement of cash flows.

Credit Risk of the CWSRF. Each of the three rating agencies rates Iowa SRF bonds AAA. That rating comes from the diversity of the loan portfolio, the substantial reserves and the cross-collateralization of the CW and DW bonds.

State rules require that recipients demonstrate their ability to provide necessary legal, institutional, managerial, and financial capability to complete the project. Each SRF loan is backed by either a revenue bond or a general obligation bond.



DRINKING WATER STATE REVOLVING FUND

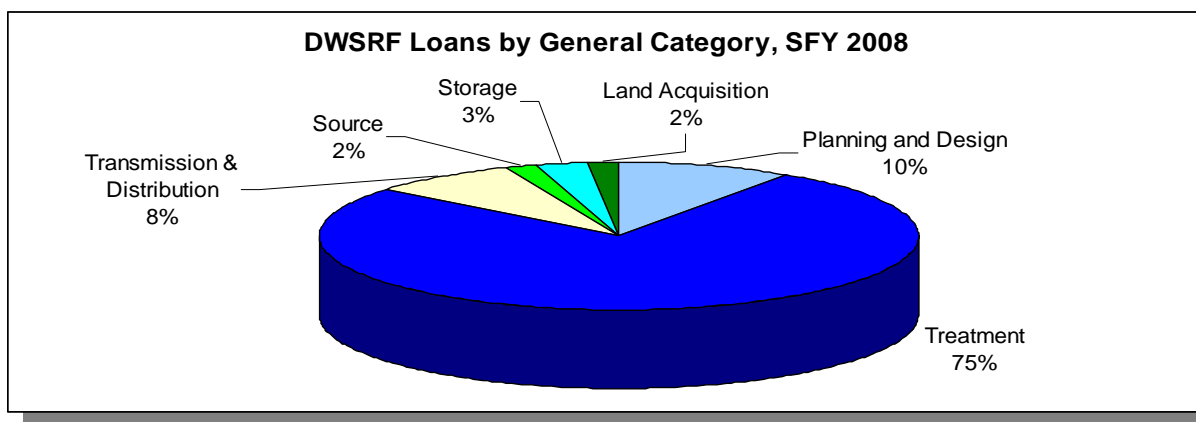
July 1, 2007 – June 30, 2008

The goals and objectives for the Drinking Water SRF were laid out in the state fiscal year (SFY) 2008 Intended Use Plan (IUP), which was updated quarterly. This annual report examines the activities carried out and the progress made toward meeting those goals.

As of the end of June 2008, the Drinking Water SRF has entered into loan commitments totaling almost \$298 million. The program, administered by the Department of Natural Resources (DNR) and the Iowa Finance Authority (IFA) funds projects to help public water supplies provide safe drinking water and protect public health.

During SFY 2008, the Drinking Water SRF provided loan assistance totaling \$64.7 million, compared with \$37.8 million the previous year. This included:

- \$6.2 million for planning and design
- \$49.4 million for treatment system improvements
- \$5.1 million for transmission and distribution system upgrades
- \$1.1 million for water source projects
- \$1.8 million for water storage
- \$1.1 million for land acquisition



The DWSRF is also an important source of funding for the management of Iowa's public water supply program. The DWSRF allows up to 31% of federal capitalization grants to be set aside for other activities supporting the goals of the Safe Drinking Water Act. During SFY 2008, DWSRF set-asides were used for technical assistance to small systems, state water program management, DWSRF administration, and capacity development and source water protection staffing.

Drinking Water SRF Goals and Accomplishments

The primary long-term goals of the Iowa DWSRF are to support the protection of public health through a perpetual program of financial assistance for the purposes of constructing facilities to properly and adequately treat drinking water, protecting source water for drinking water systems, and ensuring the long-term viability of existing and proposed water systems.

Shorter-term goals and objectives were established in the SFY 2008 IUP. The goals and progress toward meeting them is discussed below.



Goal 1: Ensure that borrowers are able to provide safe drinking water at a reasonable cost for the foreseeable future.

Objectives: During SFY 2008 DNR and IFA will continue to offer extended term financing to disadvantaged communities and will coordinate efforts with other funders such as the Community Development Block Grant program. IFA and DNR will continue to educate and inform public water supplies, engineering consultants, and financial advisors on the financing savings available by using the DWSRF. DNR will continue to implement its capacity development strategy, and in partnership with IFA, will continue to offer extended term financing.

Eight communities, including Grand Junction, Welton, Donahue, Ellsworth, Emerson, Stacyville, Liscomb, and Garnavillo, took advantage of the extended financing option, with loan terms up to 30 years.

Another effort during SFY 2008 was the presentation of a series of “Advanced SRF” workshops. The workshops were held with consulting firms and cities to explain step-by-step the SRF procedures, from applications to environmental review to loan draws. SRF staff traveled around the state and presented nine workshops. The workshops also drew feedback from the attendees, which were used to improve the program’s processes and procedures.

For the past eight years, the DNR has worked to implement a strategy to assist public water supply systems in developing their technical, financial, and managerial capacity as required by the federal Safe Drinking Water Act amendments of 1996. The activities during SFY 2008 will be detailed in a separate document entitled, “Report to the Governor: Iowa’s Capacity Development Program.”

Goal 2: Provide financial assistance that is lower in cost than private financing options while assuring the perpetual nature of the program.

Objective: During SFY 2008, IFA will continue to apply criteria in program rules to set interest rates in the IUP, including cost of funds to the SRF, availability of other SRF funds, prevailing market interest rates of comparable non-SRF loans, and long-term SRF viability.

IFA plans on maintaining the interest rate on SRF loans at 3%. With the current uncertainty in the financial markets, the SRF will remain a stable low-cost source of funds for our communities.

At 3%, the interest rate for Iowa SRF loans remains below market interest rates. By using the Equity Fund as a source of funds for disbursements and not issuing bonds until additional funds are needed, we are able to maintain a low interest rate for our borrowers.

The Planning and Design loans offer funds at 0% interest for up to 3 years. These loans not only provide no-cost funds, but have encouraged communities to begin the process of repairing and updating their water infrastructure.

Goal 3: Apply program requirements which are simple, understandable, applicable to all projects, and to the fullest extent possible are not burdensome to the recipients of assistance.

Objectives: During SFY 2008, DNR will continue to provide environmental review services, conduct project meetings, provide technical assistance for meeting federal requirements, and update its water supply manual and web-site as needed. IFA will continue to offer on-line loan applications.

The SRF environmental review coordinator completed 32 assessments, including:

- 8 categorical exclusions (CXs); and
- 24 full assessments that ended in Findings of No Significant Impact (FNSIs).



During SFY 2008, a customer satisfaction survey was sent when the environmental review for a project was completed. The surveys were sent to project owners, engineering consultants, and grant administrators.

The following comment from a city clerk on a drinking water project was typical of the level of satisfaction: "For a newbie at this process, my comfort level started out real low and with the help of the ER coordinator, it ended up, on a scale of 1-10, as a 10."

Goal 4: Commit loan funds to fully fund as many recipients as possible in accordance with the state priority ranking system, the IUP, staff resources, and available funding.

Objective: During SFY 2008, DNR and IFA will continue to prepare quarterly updates to the IUP to add projects and update program financial information.

The SFY 2008 Intended Use Plan (IUP) was approved by the Environmental Protection Commission in June 2007. It was amended quarterly to add projects to the priority lists for funding and reflect program changes. This allowed borrowers to apply when they were ready. It also allowed better coordination with other funding agencies.

Goal 5: Manage the DWSRF to maximize its use and impact through sound financial management.

Objective: During SFY 2008 IFA will continue to conduct financial analysis and develop innovative approaches to financial management. This may include investment of Clean Water State Revolving Fund uncommitted funds into DWSRF on a short-term basis to meet loan demand.

The DWSRF funds are invested with the goal of attaining a market rate of return while preserving investment principal and ensuring sufficient liquidity. IFA uses short-term investment strategies to meet all loan/operating requirements. The majority of the investments are in relatively low-risk securities.

In SFY 2008, IFA took over the loan servicing for the SRF loans. IFA is responsible for invoicing borrowers, disbursing all funds and receiving all payments. By removing these duties from the Trustee, the SRF saves money on fees and provides borrowers with funds more quickly.

Goal 6: Maintain mechanisms for funding the on-going administration of the SRF program if federal funding is eliminated.

Objectives: During SFY 2008 DNR and IFA will continue to collect initiation and servicing fees on DWSRF loans for deposit to administrative accounts. IFA and DNR will develop short and long-term plans for administrative budgets.

Funds to administer the Drinking Water SRF program come from capitalization grants and from loan fees, as shown in the diagram below. Borrowers pay an origination fee of 1% of the loan amount, which can be financed as part of the loan, as well as a .25% annual servicing fee on the outstanding principal.



Currently, the DNR is not using the non-program income generated from fees, but plans to reserve those funds to provide a portion of the state match for the State Program Management set-aside in future years.

Drinking Water SRF Program Data

1. Loan Projects

During SFY 2008, several SRF milestones were tracked to indicate project status, including when the loan was signed, when construction was started, and when the facility initiated operations.

The Drinking Water SRF Intended Use Plan (IUP), as amended throughout the year, included requests for P&D and construction loans. The total list of projects that were included on the IUP during SFY 2008 is shown as DW Exhibit 1.

As shown on DW Exhibit 2, 25 construction loans totaling \$58,306,000, and 12 planning and design loans totaling \$8,008,025, were made in SFY 2008. Several communities were projected to sign loan agreements by June 30, 2008 and did not do so. The status of these projects fell into the categories shown in the table below:

Category	Project Names
Change in Scope of Project	Oakland, Okoboji, Hartley
Environmental Review in Progress	Fort Madison, West Burlington, Bronson, Council Bluffs, Dallas Center, Stratford, Wyoming, Central Water System, Lamoni
DNR Waiting for Plans and Specs to Issue Construction Permit	Granger, Eldora
Project is Approved but Applicant Has Not Yet Signed Construction Loan	Centerville, Denmark, Hornick, Mahaska Rural Water, Rock Valley, Spirit Lake, Stanwood
P&D Loan Pending	Kelley, Laurens, Tiffin
Project On Hold Pending Other Funding	Crawfordsville
Owner Dropped out of SRF	Montrose, Fox Creek Benefitted Water District, Clarinda (supplemental)

DW Exhibit 2A shows that during SFY 2008, 23 projects reported construction starts. A total of 26 projects reported that they had initiated operations, as shown in DW Exhibit 2B.

DW Exhibit 2C is a list of projects for which the environmental and historical review process was completed during SFY 2008. These reviews resulted in either a Categorical Exclusion (CX) or a Finding of No Significant Impact (FNSI). DNR issued eight CXs and 24 FNSIs.

2. Set-Asides

States are allowed to take or reserve up to 31% of each federal capitalization grant for a number of activities that enhance the technical, financial, and managerial capacity of public water systems and protect sources of drinking water. There are four different set-asides, including:

- Small System Technical Assistance (2% of capitalization grants)
- DWSRF Administration (4%)
- State Program Management (10%), requires a 1:1 match with state funds
- Other Authorized Uses (15%, with no more than 10% to any one activity)

During SFY 2008, DNR used set-aside funds to accomplish goals and proposed activities set forth in the DWSRF Set-Aside Workplan approved by EPA.

Technical Assistance for Small Systems. Funds from this set-aside were used in SFY 2008 to provide technical assistance through the issuance of operation permits, monitoring reminders, and assistance for consumer confidence reporting for public water systems serving populations of less than 10,000. A total of 997 operation permits were issued, and six workshops, attracting 349 participants from 288 public water supplies, were held.

DWSRF Administration. DNR and IFA used this set-aside to cover the costs of administering the DWSRF program. Among the uses for the set-aside were:

- Portfolio management, debt issuance, and financial, management, and legal consulting fees;
- Loan underwriting;
- Project review and prioritization;
- Project management;

- Environmental review services;
- Technical assistance to borrowers;
- Database development and implementation; and
- Program marketing and coordination.

State Program Management. The primary uses of this set-aside in SFY 2008 were to assist with the administration of the Public Water Supply Supervision program, to review engineering documents for non-DWSRF construction projects, to determine viability for new systems, and to provide operating permits for public water supplies serving at least 10,000 persons.

Other uses in SFY 2008 included:

- Completing sanitary surveys with viability assessments and providing education and technical assistance to medium and large-sized public water supplies;
- Providing geological services such as hydrogeological analyses;
- Upgrading the SDWIS database and other information technology updates;
- Continuing to study the causes of high bacteria levels in the Des Moines River; and
- Contracts with counties to complete sanitary surveys for transient non-community systems.

Other Authorized Uses. The primary use of this set-aside in SFY 2008 was to develop technical, managerial, and financial capacity for Iowa's public water supplies (PWS), including:

- Completion of sanitary surveys with viability assessments;
- Provision of technical assistance related to capacity development through the area wide optimization program (AWOP); and
- Updating and development of new viability assessment manuals.

During this period, 469 sanitary surveys were completed. Of the 1,967 active PWS, 97.4% have current surveys.

The other major use was for source water protection (SWP) activities. An SWP coordinator works in the DNR's Watershed Improvement section. A technical advisory committee (TAC) provides guidance for improving SWP efforts. With that guidance, DNR staff:

- Completed 37 SWP delineations;
- Initiated pilot projects in the communities of Sioux Center, Remsen, Battle Creek, Waverly, and St. Ansgar;
- Held partnering meetings with agriculture agencies to address challenge grants and Conservation Reserve Program (CRP) signups;
- Offered the on-line SWP Database Tracker, which had 11,222 hits;
- Developed a CRP-SWP brochure; and
- Identified resources to implement best management practices.



Drinking Water SRF Financial Data

Binding Commitments. As shown in DW Exhibit 2 and discussed above, 25 construction loans totaling \$58,306,000, and 13 planning and design loans totaling \$8,008,025, were made in SFY 2008.

Sources of Funds. DW Exhibit 4 shows the sources of DWSRF funds on a cash basis for the period July 1, 2007 to June 30, 2008. During the reporting period, the State of Iowa received draws on federal capitalization grants for loan projects and set-aside expenditures. Interest earnings on investments actually received are shown.

Bond Proceeds Distribution. Series 2007 bond proceeds totaling \$29,854,506 were received during SFY 2008.

Disbursements. DW Exhibit 8 shows the proportionality of federal draws to the disbursements and verifies that the federal participation to date does not exceed that allowed.

a. *Loan disbursements* - As can be seen in DW Exhibit 7, loan disbursements during SFY 2008 totaled \$37,053,481. This includes prepayments of \$851,000 as identified in Note 3 to the DW financial exhibits.

b. *Bond costs of issuance* - The Cost of Issuance Fund is outside the DWSRF. However, the EPA has asked the state to report on the Cost of Issuance Fund, as it is funded with state bond proceeds. The only reason the Cost of Issuance Fund is outside the DWSRF is to avoid the crediting of costs of issuance to the state's 4% administrative set-aside ceiling. Otherwise, this fund is reported herein as a DWSRF account.

c. *Set-aside costs* - As shown in DW Exhibit 6, \$903,857 was disbursed, or accrued, for program administrative expense in SFY 2008. Included in this total are trustee and bond counsel fees, Iowa DNR and IFA administrative costs, financial advisor services and program consulting services. A total of \$1,250,552 was disbursed or accrued for local assistance and other authorized uses, \$199,416 for small systems technical assistance, and \$2,375,030 for state program management, of which 50% was paid from the DWSRF set-aside and 50% from the state's Water Quality Protection Fund.

DW Exhibit 10 shows how DWSRF program set-aside funds have been disbursed through June 30, 2008. The set-asides used in Iowa include administrative, technical assistance to small systems, local assistance and other authorized activities, and state program management. Administrative expenditures are described above. Technical assistance, other authorized activities and state program set-asides are used primarily for contractual services and staff support.

d. *Interest on bonds* - Also shown in DW Exhibit 6, \$5,449,918 was disbursed, or accrued, for payment of interest on bonds to bond holders in SFY 2008.

Total expenses for SFY 2008 were \$10,038,631 as shown in DW Exhibit 6.

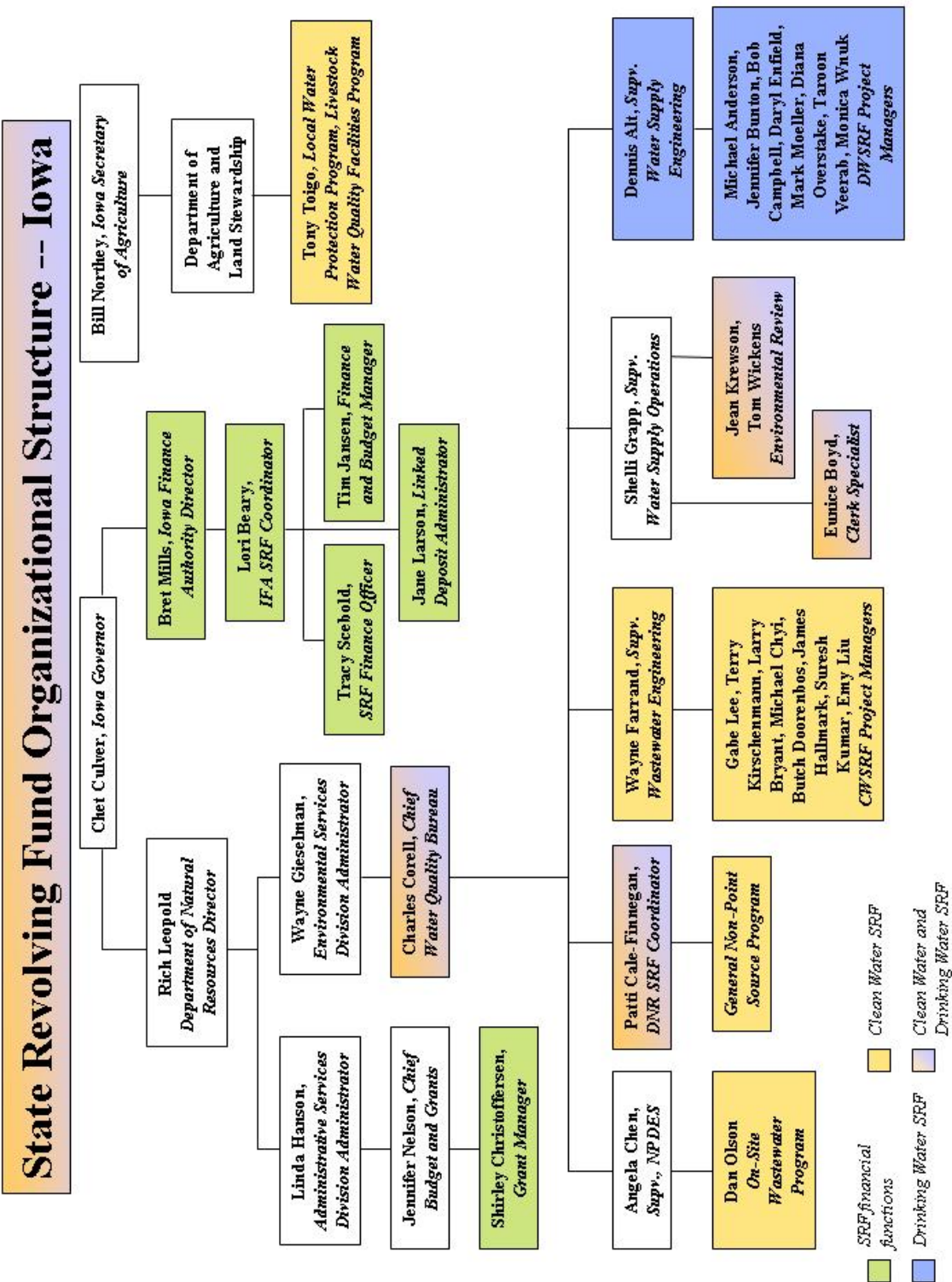
Financial Statements. DW Exhibit 5 is a statement of net assets prepared on an accrual basis for the Iowa DWSRF as of June 30, 2008 and June 30, 2007. As of June 30, 2008, the DWSRF had total assets of \$295,467,009. The State Administration Fund of the DWSRF master trust is not represented on this balance sheet as it is outside the DWSRF. The Cost of Issuance Fund is also outside the DWSRF but is included in this report as previously mentioned.

DW Exhibit 6 is a statement of revenues, expenses, and changes in net assets on an accrual basis for SFY 2008 and SFY 2007. DW Exhibit 7 is a statement of cash flows.

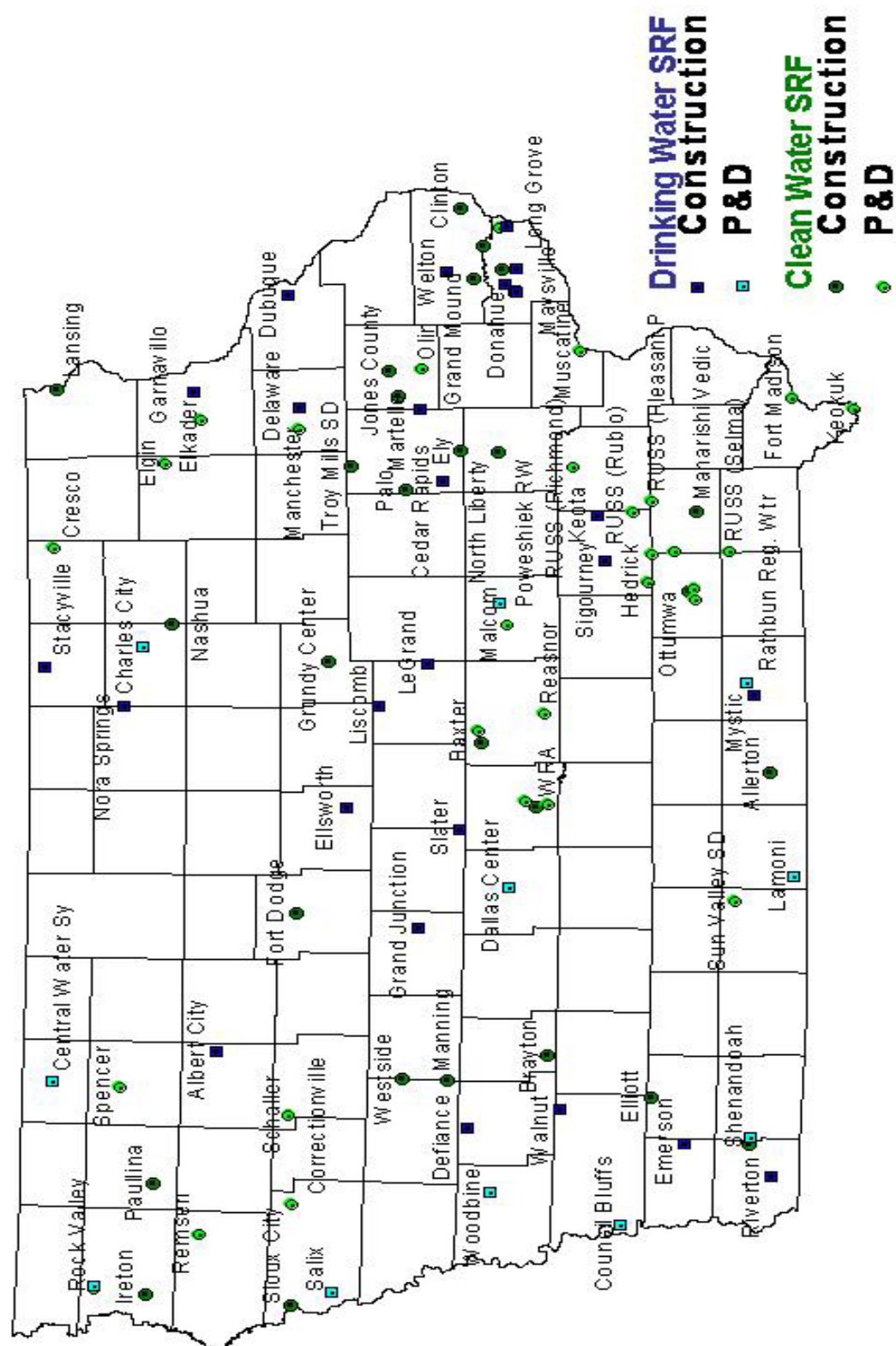
Credit Risk of the DWSRF. Each of the three rating agencies rates Iowa SRF bonds AAA. That rating comes from the diversity of the loan portfolio, the substantial reserves and the cross-collateralization of the CW and DW bonds.

State rules require that recipients demonstrate their ability to provide necessary legal, institutional, managerial, and financial capability to complete the project. Each SRF loan is backed by either a revenue bond or a general obligation bond.

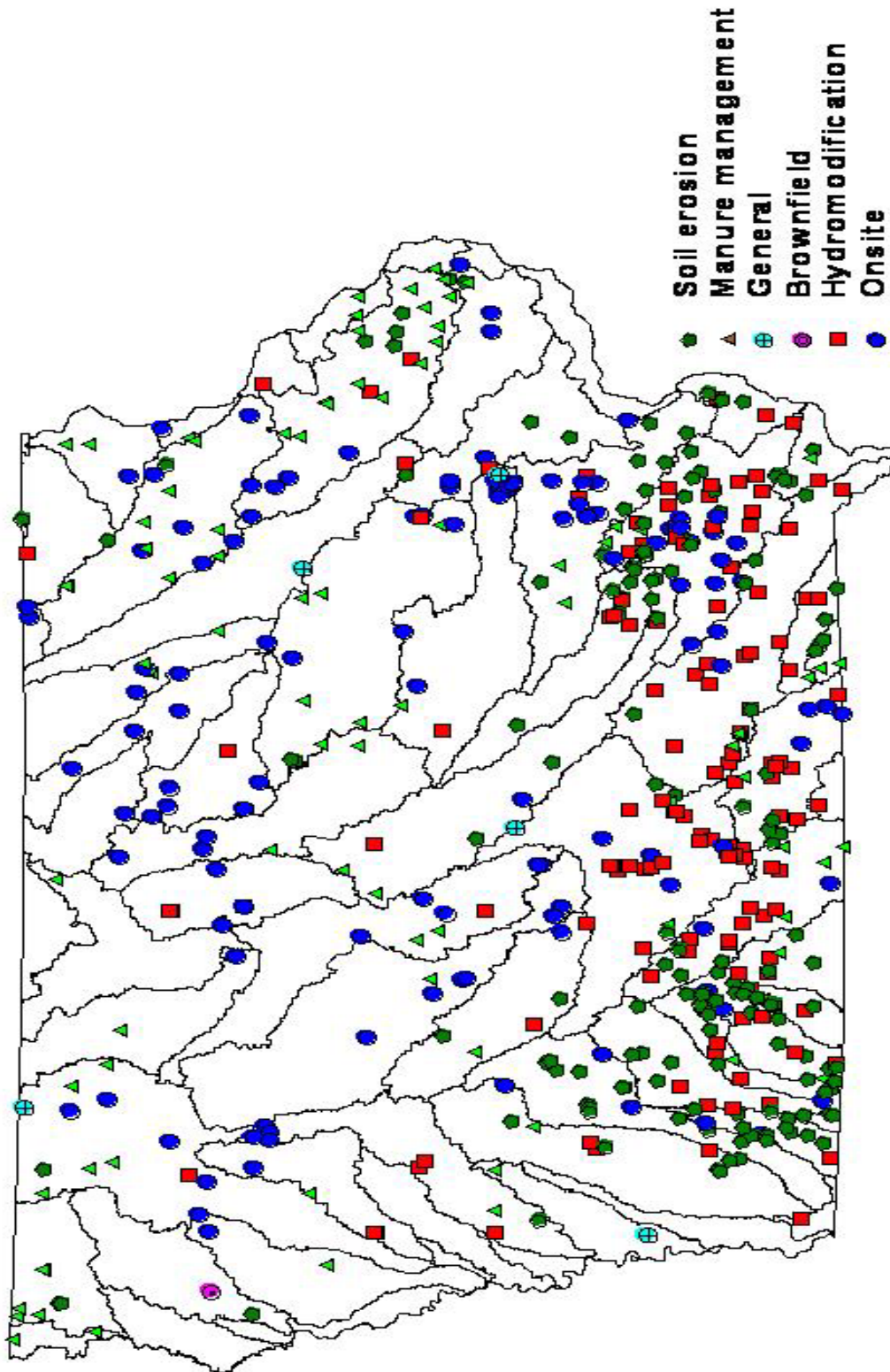
APPENDIX A – Iowa SRF Table of Organization



APPENDIX B – Map of SRF 2008 Loans



APPENDIX C – Map of CWSRF 2008 Non-Point Source Projects



APPENDIX D – Provisions of the SRF Operating Agreements

State Revolving Fund Operating Agreements between the Iowa Department of Natural Resources (DNR) and the U.S. Environmental Protection Agency (EPA) define policies and procedures to be followed for the administration of the funds.

During SFY 2007, the Operating Agreements for Clean Water and Drinking Water SRF were amended to incorporate changes in the Iowa SRF program. The new agreements, signed in April 2007, include by reference Iowa law, rules, loan documents, program procedures, and agency organization structures.

The agreements outline several areas for which the State of Iowa provides assurances and certifications as conditions for receiving EPA capitalization grants. For SFY 2008, the State has met these conditions, including:

1. Instrumentality of the State. Iowa Code has established a water pollution control and a drinking water revolving loan fund.
2. Payment Schedule. The DNR has included in its annual CWSRF and DWSRF grant applications proposed payment schedules supported by the Intended Use Plans. DNR has agreed to accept grant payments in accordance with the negotiated payment schedule.
3. State Matching Funds. The State of Iowa has agreed to deposit at least 20 percent of the amount of each grant payment in state funds in the CWSRF and DWSRF on or before the date on which the State receives each payment of the grant awards.
4. Commitment of 120 Percent in One Year. The State of Iowa has agreed to enter into binding commitments in an amount equal to 120 percent of each quarterly grant payment for CWSRF and DWSRF (excluding set-asides) within one year of receipt. Actual commitments exceeded 196 percent for CWSRF and 222 percent for DWSRF for SFY 2008 as shown in CW and DW Exhibits 9.
5. Timely Expenditure. The State of Iowa has agreed to expend all funds in an expeditious and timely manner.
6. Enforceable Requirements of the Act. The State of Iowa has agreed that all capitalization grant funds will first be used to assure progress toward compliance with enforceable deadlines, goals, and requirements of the Clean Water Act and Safe Drinking Water Act.
7. State Laws and Procedures. The State of Iowa has expended capitalization grant funds in accordance with laws and procedures applicable to the commitment or expenditure of revenue of the State.
8. State Accounting and Auditing Procedures. The State of Iowa has established fiscal controls to assure sound accounting procedures.
9. Recipient Accounting and Auditing Procedures. The State of Iowa has required assistance recipients to maintain project accounts in accordance with "generally accepted government accounting principles." The requirement for audits is implemented through a condition in the loan agreement.
10. Annual Report. The DNR has made annual reports to the EPA Regional Administrator on the actual use of funds and how the State has met the goals and objectives identified in the IUP for the previous year.
11. Environmental Review. The DNR has conducted reviews of the potential environmental impacts of projects receiving SRF assistance.

12. Intended Use Plan. The DNR prepared an Intended Use Plan and provided it to EPA at the beginning of SFY 2008 and quarterly thereafter. DNR provided it to stakeholders for public review and comment.
13. Repayment of the Fund. The State of Iowa has directly credited all principal and interest payments on loans and returns on invested funds to the appropriate CWSRF or DWSRF accounts.
14. Consistency with Plan. The State of Iowa has not provided assistance to any project unless that project is consistent with previously developed plans.
15. Other Federal Activities. The State of Iowa has complied with and required compliance from assistance recipients with applicable federal authorities.
16. MBE/WBE. The State of Iowa has applied the annually negotiated overall fair share objective and the six affirmative steps for Minority Owned and Women Owned Business Enterprises. The State has reported actual participation quarterly.
17. Loan Agreement Requirements. To fulfill the requirements of CWA Section 602(b)(6), the State of Iowa has agreed that wastewater treatment works eligible under Section 603(c)(1) of the Act that shall be constructed in whole, or in part, before fiscal year 1995 with CWSRF equivalent to the total of all CWSRF capitalization grants (Equivalency Projects), shall meet the requirements of, or otherwise be treated under, Sections 201(g)(1), 201(n)(1), 204(b)(1), 211, and 511(c)(1) of the Act and Iowa Administrative Code 567 IAC 92.8(2)(b).